

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Billings Township	County Gladwin
Fiscal Year End March 31, 2006	Opinion Date October 3, 2006	Date Audit Report Submitted to State February 7, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Burnside & Lang, P.C.		Telephone Number (989) 835-7721	
Street Address 5915 Eastman Ave., Suite 100		City Midland	State MI
		Zip 48640	
Authorizing CPA Signature  CPA, CSEP		Printed Name Mark R. Freed	License Number 1101012221

Billings Township
Gladwin County, Michigan

Financial Statements

March 31, 2006

**BILLINGS TOWNSHIP
TOWNSHIP OFFICIALS
For The Year Ended March 31, 2006**

Thomas Phillips	Supervisor
Sandra Aultman	Clerk
Eleanor Allen	Treasurer
Teresa Millhisler	Trustee
Kris Phillips	Trustee

**BILLINGS TOWNSHIP
GLADWIN COUNTY, MICHIGAN
AUDITED FINANCIAL STATEMENTS
March 31, 2006**

Table of Contents

FINANCIAL SECTION:	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1
BASIC FINANCIAL STATEMENTS:	
Government-Wide Statement of Net Assets (Exhibit 1).....	2
Government-Wide Statement of Activities (Exhibit 2)	3
Governmental Funds Balance Sheet (Exhibit 3).....	4
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets (Exhibit 3.1).....	5
Statement of Revenue, Expenditures, and Changes in Fund Balances (Exhibit 4)	6
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities (Exhibit 4.1)	7
Statement of Fiduciary Net Assets (Exhibit 5)	8
Proprietary Fund Statement of Net Assets (Exhibit 6)	9
Proprietary Fund Statement of Revenue, Expenses, and Changes in Net Assets (Exhibit 7).....	10
Proprietary Fund Statement of Cash Flows (Exhibit 8).....	11
Notes to Financial Statements.....	12-18
REQUIRED SUPPLEMENTARY INFORMATION:	
Budgetary Comparison Schedule-General Fund (Exhibit 9)	19
Budgetary Comparison Schedule-Fire Fund (Exhibit 10).....	20

**BILLINGS TOWNSHIP
GLADWIN COUNTY, MICHIGAN
AUDITED FINANCIAL STATEMENTS
March 31, 2006**

Table of Contents (Continued)

OTHER SUPPLEMENTARY INFORMATION:

Combining Balance Sheet- Nonmajor Governmental Funds (Exhibit 11)	21
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances-Nonmajor Governmental Funds (Exhibit 12)	22



Accounting Solutions That Foster Success

Independent Auditors' Report

Members of The Township
Board of Trustees
Billings Township
Gladwin County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Billings Township (the "Township"), Gladwin County, Michigan, as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's Board. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements referred to above do not include the Management Discussion and Analysis, which is required supplementary information and should be included in order to conform with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Billings Township, Gladwin County, Michigan, as of March 31, 2006, and the respective changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison information on pages 19 and 20 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and are not a required part of the financial statements of Billings Township. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Burnside & Lang, P.C.

Midland, Michigan
October 3, 2006

BILLINGS TOWNSHIP
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
March 31, 2006

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 587,647	\$ 107,367	\$ 695,014
Taxes receivable, net	60,932	-	60,932
Deposit on land	55,820	-	55,820
Due from other funds	15,316	-	15,316
Land	51,244	-	51,244
Construction in progress	-	705,416	705,416
Buildings and improvements, net	198,277	-	198,277
Equipment, net	66,869	-	66,869
Total capital assets	<u>316,390</u>	<u>705,416</u>	<u>1,021,806</u>
Total assets	<u>1,036,105</u>	<u>812,783</u>	<u>1,848,888</u>
LIABILITIES			
Accounts payable	21,346	55,817	77,163
Bonds and contracts payable	-	750,000	750,000
Total liabilities	<u>21,346</u>	<u>805,817</u>	<u>827,163</u>
NET ASSETS			
Invested in capital assets, net of related debt	316,390	6,966	323,356
Unrestricted	698,369	-	698,369
Total net assets	<u>\$ 1,014,759</u>	<u>\$ 6,966</u>	<u>\$ 1,021,725</u>

The accompanying notes are an integral part of these financial statements.

BILLINGS TOWNSHIP
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
For The Year Ended March 31, 2006

Activities:	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Governmental:							
General government	\$ 196,300	\$ 40,404	\$ -	\$ -	\$ (155,896)	\$ -	\$ (155,896)
Public safety	67,318	4,548	-	-	(62,770)	-	(62,770)
Public works	221,542	-	-	-	(221,542)	-	(221,542)
Community development	23,587	-	-	-	(23,587)	-	(23,587)
Total governmental activities	<u>508,747</u>	<u>44,952</u>	<u>-</u>	<u>-</u>	<u>(463,795)</u>	<u>-</u>	<u>(463,795)</u>
General revenues:							
Property taxes and related fees					417,253	-	417,253
State aid					183,457	-	183,457
Interest earnings					8,345	5,958	14,303
Miscellaneous					2,634	-	2,634
Special assessments					14,808	-	14,808
Total general revenues and transfers					<u>626,497</u>	<u>5,958</u>	<u>632,455</u>
Change in net assets					<u>162,702</u>	<u>5,958</u>	<u>168,660</u>
Net assets-beginning					<u>852,057</u>	<u>1,008</u>	<u>853,065</u>
Net assets-ending					<u>\$ 1,014,759</u>	<u>\$ 6,966</u>	<u>\$ 1,021,725</u>

The accompanying notes are an integral part of these financial statements.

**BILLINGS TOWNSHIP
GOVERNMENTAL FUNDS BALANCE SHEET
March 31, 2006**

	<u>General</u>	<u>Fire Department</u>	<u>Other Non Major Funds</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ 292,665	\$ 187,896	\$ 107,086	\$ 587,647
Taxes receivable, net	7,519	15,024	38,389	60,932
Deposit on land	55,820	-	-	55,820
Due from other funds	15,316	-	-	15,316
Total assets	<u>\$ 371,320</u>	<u>\$ 202,920</u>	<u>\$ 145,475</u>	<u>\$ 719,715</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	<u>\$ 18,637</u>	<u>\$ 2,709</u>	<u>\$ -</u>	<u>\$ 21,346</u>
Total liabilities	<u>18,637</u>	<u>2,709</u>	<u>-</u>	<u>21,346</u>
Fund balances:				
Unreserved and undesignated	<u>352,683</u>	<u>200,211</u>	<u>145,475</u>	<u>698,369</u>
Total fund balances	<u>352,683</u>	<u>200,211</u>	<u>145,475</u>	<u>698,369</u>
Total liabilities and fund balances	<u>\$ 371,320</u>	<u>\$ 202,920</u>	<u>\$ 145,475</u>	<u>\$ 719,715</u>

The accompanying notes are an integral part of these financial statements.

BILLINGS TOWNSHIP
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
March 31, 2006

Total fund balances for governmental funds (Exhibit 3)	\$ 698,369
Total net assets reported for governmental activities in the statement of net assets is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:	
Land and improvements	\$ 51,244
Buildings and improvements, net of \$122,584 accumulated depreciation	198,277
Equipment, net of \$975,725 accumulated depreciation	<u>66,869</u>
Total capital assets	<u>316,390</u>
Total net assets of governmental activities (Exhibit 1)	<u><u>\$ 1,014,759</u></u>

The accompanying notes are an integral part of these financial statements.

BILLINGS TOWNSHIP
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES
IN FUND BALANCES
For the Year Ended March 31, 2006

	General	Fire Department	Other Non Major Funds	Total
REVENUES				
Property taxes and related fees	\$ 63,179	\$ 124,233	\$ 229,841	\$ 417,253
Licenses and permits	5,990	-	-	5,990
State aid	183,457	-	-	183,457
Charges for services	34,414	-	-	34,414
Interest and dividends	7,665	3,261	680	11,606
Special assessments, net	14,808	-	-	14,808
Miscellaneous	2,634	1,287	-	3,921
Total revenues	<u>312,147</u>	<u>128,781</u>	<u>230,521</u>	<u>671,449</u>
EXPENDITURES				
General government	175,529	-	-	175,529
Public safety	-	67,318	-	67,318
Public works	31,941	-	189,601	221,542
Community and economic development	23,587	-	-	23,587
Capital outlay	6,721	28,848	-	35,569
Total expenditures	<u>237,778</u>	<u>96,166</u>	<u>189,601</u>	<u>523,545</u>
Excess (deficiency) of revenues over expenditures	<u>74,369</u>	<u>32,615</u>	<u>40,920</u>	<u>147,904</u>
OTHER FINANCING SOURCES (USES)				
Transfers-in	-	-	-	-
Transfers-out	-	-	-	-
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	74,369	32,615	40,920	147,904
Fund balances-beginning	<u>278,314</u>	<u>167,596</u>	<u>104,555</u>	<u>550,465</u>
Fund balances-ending	<u>\$ 352,683</u>	<u>\$ 200,211</u>	<u>\$ 145,475</u>	<u>\$ 698,369</u>

The accompanying notes are an integral part of these financial statements.

BILLINGS TOWNSHIP
RECONCILIATION OF THE STATEMENT OF REVENUE,
EXPENDITURES, AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
For the Year Ended March 31, 2006

Net change in fund balances - total governmental funds (Exhibit 4)	\$ 147,904
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The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$35,969) exceeded depreciation (\$21,171) in the current period.	14,798
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Change in net assets of governmental activities (Exhibit 2)	<div style="border-top: 1px solid black; border-bottom: 3px double black; padding: 2px 0;">\$ 162,702</div>
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The accompanying notes are an integral part of these financial statements.

BILLINGS TOWNSHIP
STATEMENT OF FIDUCIARY NET ASSETS
March 31, 2006

	<u>Current Tax Collection</u>
ASSETS	
Cash and cash equivalents	\$ 72
Total assets	<u>72</u>
LIABILITIES	
Due to other funds	<u>72</u>
Total liabilities	<u>72</u>
NET ASSETS	<u><u>\$ -</u></u>

The accompanying notes are an integral part of these financial statements.

BILLINGS TOWNSHIP
PROPRIETARY FUNDS STATEMENT OF NET ASSETS
March 31, 2006

	<u>Enterprise Fund Sewer Fund</u>	<u>Internal Service Fund Payroll Fund</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 107,367	\$ 15,244
Total current assets	<u>107,367</u>	<u>15,244</u>
Noncurrent assets:		
Capital assets:		
Construction in progress	705,416	-
Total capital assets	<u>705,416</u>	<u>-</u>
Total assets	<u>812,783</u>	<u>15,244</u>
LIABILITIES		
Current liabilities:		
Accounts payable	55,817	-
Bonds and contracts payable	750,000	-
Due to other funds	-	15,244
Total current liabilities	<u>805,817</u>	<u>15,244</u>
NET ASSETS		
Invested in capital assets, net of related debt	6,966	-
Unrestricted	-	-
Total net assets	<u><u>\$ 6,966</u></u>	<u><u>\$ -</u></u>

The accompanying notes are an integral part of these financial statements.

BILLINGS TOWNSHIP
PROPRIETARY FUND STATEMENT OF REVENUE, EXPENSES,
AND CHANGES IN NET ASSETS
For the Year Ended March 31, 2006

	Enterprise Fund
	Sewer Fund
NONOPERATING REVENUES (EXPENSES)	
Investment earnings	\$ 5,958
Total nonoperating revenue (expenses)	5,958
Changes in net assets	5,958
Total net assets-beginning	1,008
 Total net assets-ending	 \$ 6,966

The accompanying notes are an integral part of these financial statements.

BILLINGS TOWNSHIP
PROPRIETARY FUND STATEMENT OF CASH FLOWS
For the Year Ended March 31, 2006

	Enterprise Fund Sewer Fund
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Bond and contract proceeds	\$ 106,984
Purchases and construction of capital assets	(41,655)
Principal paid on capital debt	(19,359)
Interest paid on capital debt	(9,452)
Net cash used by capital and related financing activities	36,518
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends	5,958
Net increase in cash and cash equivalents	42,476
Balances-beginning of the year	64,891
Balances-end of the year	\$ 107,367

The accompanying notes are an integral part of these financial statements.

**BILLINGS TOWNSHIP
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended March 31, 2006**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Billings Township conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Billings Township:

A. Reporting Entity

The Township of Billings is a predominately rural township located in Gladwin County, Michigan and covers an area of approximately 28 square miles. The Township operates under an elected five-member Board of Trustees and provides fire protection, garbage collection, and community enrichment and development to its 2,715 residents (2000 census).

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary and proprietary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

BILLINGS TOWNSHIP
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended March 31, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due. The sewer fund is a proprietary type fund (Enterprise) and is accounted for on a cost-of-service or "capital maintenance" measurement focus, using the accrual basis of accounting.

The government reports the following major funds:

General Fund. This fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the Township of Billings. Revenues are derived primarily from property taxes and state and federal distributions, grants and other intergovernmental revenues.

Fire Fund. This fund is used to account for the activities related for fire protection for the Township.

The government reports the following other non-major funds:

Garbage Fund. This fund is a special revenue fund to account for the receipt and expenditures of waste disposal for the Township.

Mosquito Control Fund. This fund is a special revenue fund to account for the receipt and expenditures of mosquito control within the Township limits.

The government reports the following major proprietary and internal service funds:

Sewer Fund. This fund is used to record the revenue and expenses for the operation of the sewer system, and the construction of new sewer projects. Capital assets are recorded within the fund and depreciation will be charged to these assets once the respective project is complete.

Payroll Fund. The amount payroll internal service fund is used to account for resources held by the Township in a purely custodial capacity. Money in this fund is from other funds to maintain the payment of wages and related payroll tax and other payroll withholding activity.

The government reports the following fiduciary fund:

Trust and Agency Fund. This fund (Tax Collection Fund) is used to account for assets held by the Township in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds.

BILLINGS TOWNSHIP
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended March 31, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Amounts reported as program revenue include charges to customers or applicants for goods, services or privileges provided. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

D. Assets, Liabilities, and Net Assets

Bank Deposits and Investments—Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables—In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds.”

All trade and property tax receivables are shown net of allowance for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Capital Assets—Capital assets, which include property, plant, and equipment are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	30 to 40 years
Building improvements	30 to 40 years
Water systems	50 years
Fire apparatus	25 years
Fire equipment	5 to 30 years
Mowing equipment	10 to 20 years
Office equipment	5 to 20 years
Computer equipment	5 to 10 years

Deferred Revenue—Deferred revenue represent amounts that do not meet the availability criteria for recognition as revenue, such as grant monies received before the expenditure is incurred, and special assessments before the assessment is received.

Compensated Absences (Vacation and Sick Leave)—Vacation and sick leave benefits attributable to the Township’s governmental funds are recorded as an expenditure and a current liability in the respective funds. The amounts attributable to proprietary funds are charged to expense and a corresponding liability in the applicable fund is recorded. Annual vacation and sick leave does not carryover; it must be used or it is lost.

BILLINGS TOWNSHIP
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended March 31, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Term Obligations – In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The annual budget is prepared by the Township's management and adopted by the Township Board; subsequent amendments are approved by the Township Board. The annual operating budget has been prepared in accordance with generally accepted accounting principles. Unexpended appropriations lapse at year-end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner.

Excess of Expenditures Over Appropriations in Budgeted Funds

The Uniform Budgeting and Accounting Act, PA 2 of 1968, as amended (MCL 141.421 et seq.), provides that a local unit shall not incur expenditures in excess of the amount appropriated. The Township's actual expenditures and budgeted expenditures for the funds budgeted have been shown on a functional basis. The approved budgets of the Township for these budgeted funds were adopted to the activity level.

During the year, the Township incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as follows:

<u>Budgeted Item</u>	<u>Budget Appropriation</u>	<u>Actual Expenditure</u>
General Fund – Township Board	\$ 63,515	\$ 64,368
General Fund – Other general government	8,348	8,706
General Fund – Street Lighting	4,500	5,814
Fire Dept. Fund – Planning Commission	12,249	16,633

**BILLINGS TOWNSHIP
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended March 31, 2006**

NOTE 3. DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States Banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchased; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township has designated three banks for the deposit of Township funds. The investment policy adopted by the Township Board in accordance with Public Act 196 of 1997, has authorized investments in certificates of deposit, savings accounts, local government investment pools organized under PA 121, MCL 129.141 to 129.50, deposit accounts, or depository receipts of a bank but only if the bank, savings and loan association, or credit union meets all criteria as a depository of public funds contained in state law.

The Township's deposits and investments are presented on the balance sheet under the following categories:

	Cash and Cash Equivalents
Governmental Funds	\$ 587,647
Proprietorship Funds	122,611
Fiduciary Funds	72
Total	<u>\$ 710,330</u>

The breakdown between deposits and investments is as follows:

Bank Deposits (Checking Accounts, Savings Accounts, and Certificates of Deposit)	<u>\$ 710,330</u>
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The bank balance of the government deposits is \$710,330, of which \$300,000 is covered by federal deposit insurance.

BILLINGS TOWNSHIP
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended March 31, 2006

NOTE 3. DEPOSITS AND INVESTMENTS (continued)

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned. The Township does not have a deposit policy for custodial credit risk. At year end, the Township had \$410,330 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, that Billings Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At year end, the Township had no investment activity.

Interest Rate Risk. Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. State law limits the allowable investments and the maturities of some of the allowable investments. The Township has no investments at this time, therefore they have no interest rate risk.

NOTE 4. CAPITAL ASSETS

A summary of changes in general capital assets follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated - Land	\$ 51,244	\$ -	\$ -	\$ 51,244
Capital Assets Being Depreciated				
Buildings and improvements	319,032	1,828	-	320,860
Equipment	1,008,454	34,141	-	1,042,595
Subtotal	1,327,486	35,969	-	1,363,455
Less Accumulated Depreciation for				
Buildings and improvements	115,334	7,249	-	122,583
Equipment	961,805	13,921	-	975,726
Subtotal	1,077,139	21,170	-	1,098,309
Net Capital Assets Being Depreciated	250,347	14,799	-	265,146
Governmental Activities Capital Assets – Net of Depreciation	\$ 301,591	\$ 14,799	\$ -	\$ 316,390

BILLINGS TOWNSHIP
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended March 31, 2006

NOTE 5. RISK MANAGEMENT

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers compensation). The Township purchases commercial insurance to cover the risks of these losses. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

NOTE 6. SIMPLIFIED EMPLOYEE PENSION PLAN

The Township provides a Simplified Employee Pension (SEP) Plan, in which the Township contributes a discretionary percentage to an employee's individual retirement account on behalf of each Township employee who is at least 18 years old and elects to participate. The total payroll for all Township employees for the year ended March 31, 2006, was \$65,740 of which \$33,400 was covered under the plan. During the year ended March 31, 2006, the Township made contributions to the plan of 7.5% of the eligible employees' wages for a total of \$2,505.

NOTE 7. BOND ANTICIPATION NOTE

In March of 2003, the Township issued a \$634,000 short-term note to pay for certain project costs in connection with the construction of a sanitary sewer system. The note was to be secured with the proceeds of bonds to be issued by the Township to finance the costs of the project. In March 2006, the Township issued a new \$750,000 short-term note for the purpose of providing funds to pay off the above existing note with a remaining balance of \$643,016. The remainder of the proceeds of the current note in the amount of \$106,908 was deposited in the Sewer Fund to be used to pay for current construction costs. The Township expects to issue bonds in an aggregate principal amount of not less than \$3,400,000 on or about September 1, 2007 in order to finance the completion of the project. The Township is responsible for making semi-annual interest payments through September 1, 2007 and repayment of the principal after the bonds are sold. The interest rates is 4.64% per annum. Total construction costs in progress at March 31, 2006 of \$705,416 on the above project is shown on the Government-wide Statement of Net Assets as "Construction in Progress".

NOTE 8. RELATED PARTY TRANSACTIONS

The Township purchased vehicle fuel from the Fire Chief's family business, Vincent Service. The total gasoline and oil charges for the fiscal year totaled \$2,843.

BILLINGS TOWNSHIP
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended March 31, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes and related fees	\$ 59,689	\$ 59,689	\$ 63,179	\$ 3,490
Licenses and permits	2,600	2,600	5,990	3,390
State aid	189,940	189,940	183,457	(6,483)
Charges for services	40,134	40,134	34,414	(5,720)
Interest and dividends	1,500	1,500	7,665	6,165
Special assessments	26,100	26,100	14,808	(11,292)
Miscellaneous	26,500	26,500	2,634	(23,866)
Total revenues	<u>346,463</u>	<u>346,463</u>	<u>312,147</u>	<u>(34,316)</u>
EXPENDITURES				
General Government:				
Township board	63,515	63,515	64,368	(853)
Supervisor	13,262	13,262	9,567	3,695
Treasurer	32,004	32,004	21,373	10,631
Assessor	47,423	47,423	44,410	3,013
Clerk	13,179	13,179	11,943	1,236
Elections	1,990	1,990	1,104	886
Cemetery	10,660	10,660	6,914	3,746
Buildings and grounds	20,650	20,650	13,865	6,785
All other general government	8,348	8,348	8,706	(358)
Public Works:				
Road improvements	79,076	79,076	26,127	52,949
Street lighting	4,500	4,500	5,814	(1,314)
Community/Economic Development:				
Planning commission	12,249	12,249	16,633	(4,384)
Zoning board of appeals	1,400	1,400	530	870
Zoning Administration	9,150	9,150	6,424	2,726
Total expenditures	<u>317,406</u>	<u>317,406</u>	<u>237,778</u>	<u>79,628</u>
Excess (deficiency) of revenues over expenditures	<u>(29,527)</u>	<u>(29,527)</u>	<u>74,369</u>	<u>88,652</u>
OTHER FINANCING SOURCES (USES)				
Transfers-out	-	-	-	-
Total other financing sources and uses	-	-	-	-
Net change in fund balances	(29,527)	(29,527)	74,369	88,652
Fund balances-beginning	278,314	278,314	278,314	-
Fund balances-ending	<u>\$ 248,787</u>	<u>\$ 248,787</u>	<u>\$ 352,683</u>	<u>\$ 88,652</u>

BILLINGS TOWNSHIP
BUDGETARY COMPARISON SCHEDULE
FIRE FUND
For the Year Ended March 31, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes and related fees	\$ 118,641	\$ 118,641	\$ 124,233	\$ 5,592
Federal aid	-	-	-	-
Interest and dividends	298	298	3,261	2,963
Miscellaneous	200	200	1,287	1,087
Total revenues	<u>119,139</u>	<u>119,139</u>	<u>128,781</u>	<u>9,642</u>
EXPENDITURES				
Public Safety:				
Fire Protection	<u>107,300</u>	<u>107,300</u>	<u>96,166</u>	<u>11,134</u>
Total expenditures	<u>107,300</u>	<u>107,300</u>	<u>96,166</u>	<u>11,134</u>
Excess (deficiency) of revenues over expenditures	<u>11,839</u>	<u>11,839</u>	<u>32,615</u>	<u>(25,297)</u>
OTHER FINANCING SOURCES (USES)				
Transfers-in	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>11,839</u>	<u>11,839</u>	<u>32,615</u>	<u>(20,414)</u>
Fund balances-beginning	<u>167,596</u>	<u>167,596</u>	<u>167,596</u>	<u>-</u>
Fund balances-ending	<u>\$ 149,853</u>	<u>\$ 149,853</u>	<u>\$ 200,211</u>	<u>\$ (20,414)</u>

Exhibit 11

**BILLINGS TOWNSHIP
COMBINING BALANCE SHEET
OTHER NON MAJOR FUNDS
March 31, 2006**

	<u>Special Revenue Fund</u>	<u>Special Revenue Fund</u>	
	<u>Mosquito Control</u>	<u>Garbage Fund</u>	<u>Total Non Major Funds</u>
ASSETS			
Cash and cash equivalents	\$ 14,921	\$ 92,165	\$ 107,086
Taxes receivable, net	<u>2,570</u>	<u>35,819</u>	<u>38,389</u>
Total assets	<u>\$ 17,491</u>	<u>\$ 127,984</u>	<u>\$ 145,475</u>
LIABILITIES AND FUND BALANCES			
Fund balances:			
Reserved for:			
Unreserved and undesignated	<u>\$ 17,491</u>	<u>\$ 127,984</u>	<u>\$ 145,475</u>
Total fund balances	<u>17,491</u>	<u>127,984</u>	<u>145,475</u>
Total liabilities and fund balances	<u>\$ 17,491</u>	<u>\$ 127,984</u>	<u>\$ 145,475</u>

The accompanying notes are an integral part of these financial statements.

Exhibit 12

BILLINGS TOWNSHIP
COMBINING STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES
OTHER NON MAJOR FUNDS
For the Year Ended March 31, 2006

	<u>Special Revenue Fund</u>	<u>Special Revenue Fund</u>	
	<u>Mosquito Control</u>	<u>Garbage Fund</u>	<u>Total Non Major Funds</u>
REVENUES			
Property taxes and related fees	\$ 21,455	\$ 208,386	\$ 229,841
Interest and dividends	101	579	680
Total revenues	<u>21,556</u>	<u>208,965</u>	<u>230,521</u>
EXPENDITURES			
Public works	<u>22,420</u>	<u>167,181</u>	<u>189,601</u>
Total expenditures	<u>22,420</u>	<u>167,181</u>	<u>189,601</u>
Excess (deficiency) of revenues over expenditures	<u>(864)</u>	<u>41,784</u>	<u>40,920</u>
Net change in fund balances	(864)	41,784	40,920
Fund balances-beginning	<u>18,355</u>	<u>86,200</u>	<u>104,555</u>
Fund balances-ending	<u>\$ 17,491</u>	<u>\$ 127,984</u>	<u>\$ 145,475</u>

The accompanying notes are an integral part of these financial statements.

October 3, 2006

Members of the Township Board
of Trustees
Township of Billings
Gladwin County, Michigan

Dear Board Members:

In planning and performing our audit of the financial statements of Billings Township, for the year ended March 31, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Township's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that we believe to be material weaknesses.

REPORTABLE CONDITIONS (MATERIAL WEAKNESSES)

General Ledger

The general ledger should be the primary financial record of a Township and should reflect all financial activity of the organization for the year. During our audit, we found it necessary to make several adjusting entries to the March 31, 2006 general ledger. We also found that a detail general ledger for the entire reporting period was not available to auditor's or even accessible through the computerized financial reporting system.

We recommend that the general ledger be monitored each month, either by the clerk or with assistance from an outside accounting firm, and that any necessary adjustments be made so that the general ledger balances (debits equal credits). The clerk and treasurer also must compare their records and assure that the reconciled bank accounts agree with the balances recorded within the general ledger. We finally recommend that before the clerk close out a fiscal year a complete detailed general ledger be printed for each fund for the entire reporting period.

Periodic Financial Reports (Repeat Comment)

As described in the *Uniform Accounting Procedures Manual* for Counties and Local Units of Government in Michigan, legislative bodies must be provided periodic financial reports from the Clerk and Treasurer. The required periodic reports and suggested frequency should include the following:

Clerk or Accounting or Controller or Finance Department

- Balance sheet by fund (monthly).
- Detail revenue by fund - budget to actual (monthly).
- Detail expenditures by fund - budget to actual (monthly).

The Clerk and Treasurer do not provide the Township Board of Trustees with the required correct reports. These reports will assist the board members in determining whether the financial activity of the various funds is within the adopted budgets, the sufficiency of the cash balances to meet the needs of the current period, and whether there is sufficient cash available to cover unforeseen expenditures, etc.

Bank Reconciliations (Repeat Comment)

Audit adjustments were required to reconcile cash balances to the general ledger. As stated in the in the Michigan Department of Treasury's *Uniform Accounting Procedures Manual*, "All bank accounts must be reconciled to the local unit accounting records monthly. The Clerk's records must agree with or reconcile to the Treasurer's and the bank's records. A reconciliation sheet should be prepared in duplicate for each month with one copy for the clerk and one copy for the treasurer. Canceled checks are to be filed with the bank statement to which they apply." We recommend the Clerk and Treasurer submit this reconciliation along with the above reports monthly until the Township Board is satisfied that this necessary reconciliation procedure is being performed on a monthly basis.

Appropriations in Budgetary Funds (Repeat Comment)

P.A. 2 of 1968, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. We noted during our audit that the Township incurred expenditures in excess of the amount appropriated in the General Fund.

We recommend the modified accrual basis of accounting be considered when adopting and amending the budget of the Township's governmental type funds. The budget should be amended during the year to reflect expenditures expected to be made in excess of the original budget amounts. These amendments must be approved by the Township Board and documented in the Board's meeting minutes. This will help prevent the Township from incurring expenditures in excess of appropriations.

OTHER MATTERS

The following items, although not considered reportable conditions, are matters we believe worthy of your consideration.

Computerized General Ledger (Repeat Comment)

The general ledger is the primary financial record of the Township and must reflect all financial activity. During our audit, we noted the Current Tax Collection Fund is not maintained by the Clerk on the General Ledger. We recommend the Clerk establish this fund on the general ledger to report this information on a monthly basis so that Township Board members can perform their financial oversight responsibility.

Financial Oversight

The general limitations in any smaller municipalities like the Township of Billings requires that the Township Board of Trustee members continue to remain involved in the financial affairs of the Township through oversight of operation, development of the annual budget, inquiries about variance between budgeted and actual amounts shown in the financial statements, and the independent review of critical functions. Our comment here is intended to emphasize the importance of this oversight.

Conflict of Interest Policy (Repeat Comment)

The Township has related party transactions with the Clerk and Fire Chief. Related party transactions can often be controversial. We recommend the Township Board of Trustees adopt a Conflict of Interest Policy to assist in governing the business practices of the Township.

Information System (Repeat Comment)

Township officials currently utilize various systems to process data to communicate financial information to governmental officials, interested citizens, media and those who participate in the lending process. We recommend the Supervisor, Clerk and Treasurer use the existing accounting system to process financial data and to use its standard reports to communicate this information to interested parties. The Supervisor will be responsible for inputting and maintaining budget information; the Treasurer will be responsible for inputting cash receipts and utilizing the cash reconciliation functions; and the Clerk will be responsible for the processing of payroll and the disbursing of accounts payable obligations. Following this recommendation will improve the accuracy and timeliness with regard to the submission of required financial reports.

Conclusion

These conditions were considered in determining the nature, timing, and extent of the audit tests applied on our audit of the March 31, 2006, financial statements, and this report does not affect our report on those financial statements dated October 3, 2006. We have not considered internal control since the date of our report.

This report is intended for the information of the members of the Township Board, management and the State of Michigan, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

Burnside & Lang, P.C.

BURNSIDE & LANG, P.C.